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MANAGEMENT BULLETIN 01-01

January 12, 2001

To: County and District Superintendents
Charter School Administrators

Attention: County and District Chief Business Officers

From: Susan Lange, Deputy Superintendent
Finance, Technology, and Administration

Subject: **GOVERNOR'S BUDGET FOR FISCAL YEAR 2001-02**

On Wednesday, January 10, 2001, Governor Gray Davis presented his budget proposal for the 2001-02 fiscal year. In the interest of providing information on the budget as quickly as possible, this management bulletin focuses on major highlights. Copies of this bulletin, as well as future budget-related documents, will be available through the California Department of Education's (CDE) web site (www.cde.ca.gov/sfsdiv/budgetact/). The budget itself is available through the Department of Finance's web site (www.dof.ca.gov/).

Budget Overview

Based on forecasts of an economic slowdown and a significant decline in the stock market, the budget projects General Fund revenue growth of 7.5 percent in 2000-01 and 3.2 percent in 2001-02. The 2000-01 growth rate is higher than forecasted in July, when the current-year budget was enacted. The 2001-02 growth rate is slower than experienced in 1999-00 and projected for 2000-01. The budget indicates that this revenue forecast represents "prudent budgeting" that is warranted due to the uncertainty of current revenues and the risk of a possible recession.

Under Proposition 98, the revenue forecast for 2001-02 generates \$44.5 billion in state and local funds available in 2001-02 for ongoing program purposes in K-12 schools, other educational agencies, and community colleges. This is based on "Test 3" under Proposition 98. As part of the Proposition 98 calculation, the Constitution allows the state to provide a lower funding level (Test 3) than otherwise required in years when personal income growth exceeds General Fund revenue growth. Because this alternate calculation is intended to be used when the state is experiencing unusually slow revenue growth, the Governor proposes to exceed the minimum funding level, and instead, fund Proposition 98 at the higher (Test 2) level of \$46.4 billion, which exceeds the required amount by almost \$1.9 billion and represents an increase of \$3.5 billion above the 2000-01 level. The Governor proposes allocating \$41.3 billion to K-12

schools, which is an increase of \$3.2 billion above the 2000-01 level. On a per-ADA basis, K-12 Proposition 98 funding increases from \$6,695 to \$7,174, or 7.2 percent. Estimates of overall per pupil expenditures will be available later in the year.

The budget includes full funding for statutory enrollment growth and a 3.91 percent cost-of-living adjustment (COLA).

Major Budget Proposals

The Governor's proposed new programs are primarily in the areas of student achievement and teaching. Major Governor's initiatives in the K-12 portion of the education budget include:

- \$350 million for professional development, including \$335 million for teacher training related to the new state standards and \$15 million for a new training program for principals.
- \$123 million to augment funding for the High-Achieving Schools program so that schools receiving awards will receive \$150 per pupil.
- \$100 million for incentive funding to increase the length of the school year by 30 days for middle school students.
- \$45 million to administer the new High School Exit Examination.
- \$30 million to provide incentives to school districts to increase the number of students enrolled in algebra classes.
- \$27.5 million for workbooks to be used to prepare students for Standardized Testing and Reporting (STAR) tests and the High School Exit Examination.
- \$20 million for ten new high-tech high schools across California.
- \$20 million for software and related training to aid in analyzing STAR test data.

The budget also includes:

- \$270 million from 1999-00 funds for one-time costs of the special education mandate settlement.
- \$125 million for ongoing costs of the special education mandate settlement.
- \$97.9 million to increase base funding for special education
- \$223.7 million in one-time funds for the school bus safety mandate.
- \$66.7 million for ongoing costs of the school bus safety mandate.

School Apportionments

The budget proposes to fully fund school district and county office of education apportionments. It includes full funding for statutory enrollment growth and a 3.91 percent cost-of-living adjustment (COLA). Table 1 presents the estimated 2001-02 COLA amounts for school districts.

Table 1
District Revenue Limit COLAs

District Type	COLA per Unit of ADA
Elementary	\$168
High School	\$202
Unified	\$175

Special Education

The budget proposes to fully fund enrollment growth and a 3.91 percent COLA. The budget proposes \$6.9 million for equalization of funding rates, \$5.8 million for districts with higher-than-average proportions of students with high-cost, low-incidence disabilities, \$14 million to expand the Workability I Program in high schools, and \$97.9 million to permanently increase the base funding level for special education programs. The budget also includes \$13.6 million for both 2000-01 and 2001-02 to cover deficiencies in growth funding and an additional \$41.5 million for projected 2001-02 enrollment increases. The budget reflects \$124.6 million of new federal funds, which offset General Fund program costs.

In addition, the budget includes a total of \$395 million to implement the settlements reached in the 20-year-old Riverside special education mandate claim and the Long Beach mandate claim regarding provision of services to students ages 3 to 5 and 18 to 21. This includes \$100 million for ongoing costs, \$25 million for the first of ten payments for one-time costs, and \$270 million in one-time funding for one-time costs.

Categorical Programs

The budget provides increases of varying amounts for growth and a 3.91 percent COLA. The budget also continues to allow funding shifts (“20 percent out” and “25 percent in”) between programs formerly budgeted in the mega-item.

Child Development

The budget proposes \$66.3 million for the full-year cost of the expansion of several programs begun in the current year. These programs include Preschool (\$23.8 million), General Child Care targeted to 0-5 year-olds (\$40 million), and Migrant Child Care (\$3 million). The budget provides \$45.5 million for a statutory COLA of 3.91 percent. Of this amount \$36.3 million will be funded from the General Fund and \$9.2 million from federal funds. The budget also proposes \$5.4 million to help compensate child care and development contractors for increased costs associated with state minimum wage increases.

For CalWORKs child care:

- The budget provides \$491 million for Stage 2 caseload. This is a reduction of \$98.2 million in federal funds to be shifted to Stage 1 CalWORKs to adjust for families moving from Stage 1 to Stage 2 at a slower rate than anticipated.
- The CalWORKs reserve for Stages 1 and 2 will be reduced to \$100 million and will be available to both the Department of Social Services and the Department of Education to ensure sufficient funding for Stage 1 and Stage 2 services.
- The budget also provides a \$41.7 million increase to the Stage 3 set-aside in the current year and through July 2001 to cover the anticipated increase in families timing out of Stage 1 and/or Stage 2. This adjustment to Stage 3 funding is being made pending the outcome of the State's child care policy review due this spring.

Finally, the budget allocates one-time savings of \$53.8 million to the Child Care Facilities Revolving Fund to meet the overall demand for new child care facilities by providing for the purchase and installation of portable facilities, and for renovation and improvement of existing facilities to meet licensing requirements.

Kindergarten Readiness Pilot Program

The budget provides \$13.9 million to implement the first year of the Kindergarten Readiness Pilot Program established by Chapter 1022, Statutes of 2000 (AB 25). This multi-year program will compensate participating school districts, which must agree to raise the minimum age of admission of kindergarten pupils by three months and provide kindergarten readiness instruction for half the number of kindergarten pupils in the district.

Standards, Assessment, and Accountability

The budget provides \$123 million to fully fund Governor's Performance Awards at \$150 per test taker in grades 2 through 11. These awards will be provided to schools that meet growth and participation targets as measured by the Academic Performance Index (API).

The budget proposes \$45 million to administer the new High School Exit Examination.

The budget also proposes \$30 million to provide incentives to school districts to increase the number of students enrolled in algebra classes.

The budget proposes \$27.5 million for workbooks for the standards-based Standardized Testing and Reporting (STAR) examination and the High School Exit Examination to provide students and their parents with information regarding the standards to which students will be held accountable, as well as the skills they must master. The workbooks would be provided free of charge to all students being tested.

The budget proposes \$21.5 million for a third cohort of schools to participate under the Public Schools Accountability Act. The budget continues funding for the first and second cohorts.

The budget also provides \$20 million in incentive funds to purchase or develop software and related training to aid in analyzing STAR test data; sets aside \$5 million to be used for the establishment of a method to monitor student-level scores, which are used to formulate an API

score for each school site; and provides \$3 million in the current year for an independent evaluator to determine whether the current standards-based tests adequately measure the state-adopted content standards.

School Facilities

The budget increases the K-12 deferred maintenance program by \$8.8 million to a total of \$203.6 million, including funding from excess loan repayment funds and school site utilization funds. These funds will fully fund the one-half of 1 percent state match for 2001-02.

As of December 13, 2000, \$1.6 billion of the funds from bond proceeds authorized under Proposition 1A, approved by voters in November of 1988, remain to be apportioned. These funds are available for apportionment to eligible school districts through July 2002 specifically for new school construction (\$1.3 billion), hardship funding for school districts unable to provide the required local matching funds (\$261 million), and class size reduction (\$29 million).

Proposition 39, which was approved by the voters in November 2000, makes it easier for local communities to pass general obligation school bonds by lowering the voter approval requirement from 66 and two-thirds percent to 55 percent. Subject to prospective voter approval of local bonds, additional resources will be available to assist school districts in improving the quality of California's school facilities through repairs, construction, or replacement.

Staff Development and Teaching

The budget proposes \$350 million for professional development, including \$335 million for intensive professional development for teachers and instructional aides related to the new standards in mathematics and reading and \$15 million for a new training program to enhance the leadership skills and content knowledge of school principals and vice principals.

The budget proposes \$12 million for growth in the Beginning Teacher Support and Assessment Program. This will allow all first- and second-year teachers to participate in the program.

The budget also proposes \$10 million (non-Proposition 98 funds) for stipends to allow additional teachers to attend University of California professional development institutes.

Middle Schools

The budget proposes \$100 million for the first step in a three-year effort to increase the length of the school year by 30 days for all middle school students. The program would offer an incentive of approximately \$770 per student to encourage schools to participate.

The budget proposes \$20 million for expansion of the After School Learning and Safe Neighborhoods Partnerships Program. This program provides three-year grants for local after-school education and enrichment programs and is targeted at middle schools.

Other Programs

The budget provides \$20 million for ten new high-tech high schools across California. Matching grants of \$2 million each would be awarded by the Secretary for Education on a competitive basis.

The budget proposes \$10 million in one-time funds for equipment for Regional Occupational Centers and Programs (ROC/Ps).

The budget provides \$5 million for mathematics and science challenge grants to be administered by the Office of the Secretary for Education. These funds would be used for matching grants for schools and other organizations to develop partnerships related to mathematics and science careers.

The budget provides \$2.4 million to fund additional costs at 290 existing partnership academies.

The budget includes \$1.9 million for additional hours for apprenticeship programs.

Summary Statistics

The Governor's Budget projects that a total of \$53.3 billion in revenue will be available for K-12 education in fiscal year 2001-02. Table 2 shows that, of this total, \$41.3 billion of state and local funding would satisfy the state's obligation under Proposition 98.

Table 2
Funding for K-12 Education
All Sources and Proposition 98
(in millions)

	All Sources	Guaranteed by Proposition 98
State General Fund	\$32,205	\$29,471
State lottery	827	--
Other state funds	84	--
Federal funds	4,810	--
Local property tax	11,923	11,779
Local debt service tax	612	--
Other local funds	2,843	--
TOTALS	\$53,303	\$41,250

Notes: K-12 education funding under the "All Sources" category includes CDE state operations; State Special Schools; state school facilities bond repayments; and contributions to STRS, State Library, and Commission on Teacher Credentialing. Totals may not add due to rounding.

As noted earlier, the budget estimates that state and local funding for K-12 schools counting toward Proposition 98 will total \$41.25 billion – an increase of \$3.2 billion. On a per-ADA basis, K-12 Proposition 98 funding increases by 7.2 percent. Table 3 shows the proposed uses of the \$3.2 billion in Proposition 98 funding available for new, ongoing program purposes.

Table 3
Uses of New Proposition 98 Funds
(in millions)

Enrollment growth	\$462.5
Cost-of-living adjustments	\$1,417.1
Policy proposals	\$996.7
K-12 standards training	335.0
Standards, assessment, and accountability	277.0
Special education mandate	125.0
Instructional time for middle schools	100.0
Special education funding increase	97.9
High-tech high schools	20.0
Principal training	15.0
Special education equalization and low incidence adjustments	12.7
Other	13.1
Other proposals	\$298.1
Backfill one-time or federal funding	146.2
Child development adjustments	108.5
Ongoing funding for school bus safety mandate	66.7
Public Schools Accountability Act first and second cohort	66.7
After school safe neighborhoods program	20.0
Special education deficiency	13.6
AB 25 kindergarten pilot	13.4
Delete one-time funding	-52.0
Special education federal funding increase	-110.6
Miscellaneous baseline and technical adjustments	25.6
TOTAL	\$3,173.4

The budget proposes one-time expenditures of over \$530 million in 2001-02. These funds result primarily from one-time savings due to lower-than-estimated program costs in earlier years. Table 4 shows the major proposals for use of these funds.

Table 4
One-time Funding
(in millions)

Special education mandate, one-time costs (1999-00 funds)	\$270.0
School bus safety mandate, one-time costs	223.7
Special education deficiency	13.6
CSIS--expand program	12.0
ROC/P equipment	10.0

Next Steps in the Process

The Governor's Budget represents the first in a series of steps that will be taken to arrive at a state budget for 2001-02. The Governor's proposals will now be converted into budget bills (one in each house) and legislative hearings should begin in March. In May, the Governor's Department of Finance will issue its traditional "May Revision" of population, revenue, and expenditure projections, and growth and COLA estimates are subject to change at that time. The budget bills, having been amended in each house, will be reconciled by a joint conference committee and should be passed to the Governor in late June. Upon receiving the final Budget Bill, the Governor may then exercise his line-item veto before signing the Budget Act of 2001.

Questions regarding this bulletin should be directed to the Fiscal Policy Office of the School Fiscal Services Division at (916) 323-8068.

NOTICE:

The guidance in this bulletin is not binding on local education agencies or other entities. Except for the statutes, regulations, and court decisions that are referenced herein, this bulletin is exemplary, and compliance with it is not mandatory. (See Education Code Section 33308.5.)